

Tax Expenditures in the California State Budget

With the proposed fiscal year 2011-12 State budget, Governor Brown is to be commended for offering a proposal that seeks to address the State's \$25.4 billion budget gap with a balance of both expenditure reductions and revenue increases. One of the primary solutions identified in the proposal is the elimination of redevelopment agencies which is expected to generate an estimated \$1.7 billion in savings to the State. While the Governor's proposed budget reflects a wide variety of creative solutions, if all options are truly to be considered, the role of tax expenditures must also be considered in the ongoing assessment of the State's structural budget deficit.

Tax expenditures have been defined by the State as "subsidies provided through the taxation systems by creating deductions, credits and exclusions of certain types of income or expenditures that would otherwise be taxable." The California Department of Finance Tax Expenditure Report of 2009-10 estimates over \$40 billion in revenue foregone to the State due to tax expenditures. While the vast majorities, approximately \$30 billion, are personal income tax expenditures, approximately 10%, or \$4.0 billion,

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are corporate tax expenditures. Once in place, tax expenditures are reviewed less frequently than other direct expenditures and tend to remain in the tax code long after they are useful or applicable. In fact, once enacted, and rarely without a declaration of legislative intent, requirement for evaluation, or a sunset date, tax expenditures become permanent features of the tax code, thus making their economic value to the State virtually impossible to assess.

The Los Angeles County Board of Supervisors has consistently articulated its commitment to working with the Governor and the Legislature in developing solutions for the restructuring of the State-County relationship but it is imperative that the State consider all options available to it in addressing its budget crisis.

I THEREFORE MOVE THAT THE BOARD OF SUPERVISORS:

Instruct the Chief Executive Officer to work with the County's Sacramento Advocates to pursue the following positions:

- a) Broad analysis of the role of tax expenditures in the State budget and the implications for revenue losses;
- b) Evaluation of the current tax expenditures that are part of the tax code including a thorough assessment of their respective relevance and appropriateness; and
- c) Consideration of reduced tax expenditures as a 2011-12 State Budget solution and as part of any discussions regarding revenue streams.

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